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FM AMEMBASSY MEXICO

TO RUEHC/SECSTATE WASHDC PRIORITY 1277

INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY

RUEHCV/AMEMBASSY CARACAS PRIORITY 1391

RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY

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UNCLAS SECTION 01 OF 02 MEXICO 001019

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STATE PLEASE PASS TO USTR (EINSENSTATE/MELLE)

USDOC FOR 4320/ITA/MAC/WH/ONAFTA/GERI WORD

TREASURY FOR IA (ALICE FAIBISHENKO, ANNA JEWEL)

E.O. 12958: N/A

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SUBJECT: MEXICAN RESPONSE - BRV CEMENT NATIONALIZATION

**¶1.** (SBU) Summary. President Hugo Chavez announced April 3 that the BRV would nationalize the cement industry. On April 7, Venezuelan Oil Minister Rafael Ramirez announced that foreign companies will be allowed to maintain a minority stake. Mexican company Cementos Mexicanos (Cemex) is the largest foreign cement company in Venezuela with 52% market share and over 550 million USD in revenue. Cemex and Mexican government officials have approached the BRV for additional details, though Cemex executives report they will consider the decision final. Cemex stock fell in New York and Mexico City on the initial announcement but had rebounded by market close on the April 7. Nationalization of even part of Cemex set off fears of nationalization for other Mexican companies operating in Venezuela. End Summary.

**¶2.** (U) On April 7, BRV Oil Minister Rafael Ramirez announced that foreign companies would be allowed to maintain a minority stake in the cement industry, effectively backpedaling from Venezuelan president Hugo Chavez's April 3 announcement that the Venezuelan cement industry would be completely nationalized. While Chavez, in his unanticipated evening address, said that his government can not permit businessmen to export raw materials needed to stop Venezuela's current housing shortage, Ramirez said that ongoing talks with the affected companies will open the way toward a final takeover agreement. The new announcement suggests nationalization of the cement industry would be similar to nationalization of oil operations in the Orinoco basin.

**¶3.** (U) This nationalization has been at least a year in the making as Chavez had announced in April 2007 that he was ordering tax authorities and the National Guard to inspect the companies to uncover where they were sending product. At that time he threatened expropriation and said that he would not tolerate the companies selling products abroad at international prices instead of selling locally where there was a need (and presumably lower sales gains).

**¶4.** (U) Cemex is the largest cement company in Venezuela and controls 52% of the country's cement production. Venezuelan production accounts for 3% of total revenue for Cemex. The company owns 3 plants in Venezuela employing more than 3,000 with a yearly production capacity of 4.6 million metric tons. Cemex's revenues in Venezuela for 2007 were more than 550 million USD and assets were near 1 billion USD.

**¶5.** (U) In a release by the Secretariat of Foreign Relations, the GOM announced they will "do everything in their power to protect the legitimate interests of Mexican businesses

abroad." Undersecretary for Latin America and the Caribbean, Geronimo Gutierrez called in Venezuelan Ambassador Roy Chaderton to discuss the situation. Mexican Ambassador to Venezuela Mario Chacon also met with Venezuelan officials for clarification.

¶ 6. (SBU) On April 7, before the announcement by Ramirez, ConGen Monterrey spoke with Javier Trevino, Cemex's Senior Vice President for Communications. Trevino said that Cemex did not yet know any of the details regarding the nationalization. Cemex's Venezuelan country manager had a meeting scheduled with the Venezuelan Vice President to gain more information. Trevino said that Cemex, however, viewed Venezuela's decision as final and a likely prelude to further nationalizations in the steel and food sectors.

¶ 7. (U) Chavez's April 3 announcement sent Cemex ADRs down 4.2% (1.16) to 26.32 on Friday in composite trading at the New York Stock Exchange. Cemex's stock price on the Mexican stock market fell 3.87% to 27.83 while the Mexican Stock Exchange's IPC index, heavily dependent on Cemex, fell 0.46%.

Standard & Poor's announced on April 3rd that the move did not affect their rating of Cemex. As of 4:30 pm on April 7, Cemex stock had almost recovered its losses with a 3.95% gain (1.04) to 27.36. On the Mexican stock market, the gain was 3.6% to 28.82.

¶ 8. (U) Cemex was founded in 1906 in Monterrey and currently has operations in more than 50 countries. In 2007, sales reached 21.7 billion USD. Cemex has been publicly traded since 1976, though President Lorenzo Zambrano (grandson of Cemex's founder) and family rank 785 on Forbes' list of billionaires with a net worth of 1.5 billion. The Zambranos are among the 10 wealthiest families in Mexico.

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Comment

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¶ 9. (SBU) Ramirez's updated announcement helped alleviate some of the worst fears of Cemex and other Mexican investors in Venezuela; however, the poorly worded initial nationalization announcement caused additional damage to Venezuela's reputation among Mexican investors and the GOM. Venezuela's compensation to Mexican shareholders will determine the precise degree of damage.

¶ 10. (SBU) No matter how agreeable the terms of the takeover, the announcement set off fears among other Mexican companies operating in Venezuela, including Gruma (Grupo Maseca - flour, corn and tortilla companies) and Femsa (Coca-Cola brand bottling company), both of which operate in Chavez-targeted industries.

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